

**Statement before the House Foreign Affairs Committee,
Subcommittee on Europe, Eurasia, and Emerging Threats**

“EASTERN MEDITERRANEAN ENERGY”

A Statement by

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Chairman Rohrabacher, Ranking Member Keating, members of the Committee: Thank you for the opportunity to testify before the subcommittee on Europe, Eurasia, and Emerging Threats.

The discovery of new offshore oil and gas deposits in the Eastern Mediterranean Sea region is one of the more promising global energy developments of the last five years. Handled wisely, these deposits off Israel and Cyprus (as well as potentially Lebanon, Gaza, and Syria) can contribute to development and security for countries in the Eastern Mediterranean, and across a wider swathe of Europe. Handled poorly, these resources could be the source of new conflicts in an already volatile region.

According to the United States Geological Survey, the Levant Basin in the Eastern Mediterranean holds around 122 trillion cubic feet (or 3.45 trillion cubic meters) of undiscovered, technically recoverable natural gas, along with 1.7 billion barrels of crude oil.¹ Most of the currently known deposits are off the coast of Israel, and in adjacent fields off Cyprus. Additional, still undiscovered fields may be located off the coasts of Lebanon and Syria. While the currently recognized volumes are small relative to those found in the Persian Gulf, Russia, or the Caspian Sea Basin, they are large enough to have a significant impact on the energy security of states in the Eastern Mediterranean, and make some, albeit more limited, contribution to energy security in Europe.

The oil and gas resources of the Eastern Mediterranean sit, however, at the heart of one of the most geopolitically complex regions of the world. The Israeli-Palestinian conflict, tensions between Israel and Lebanon, the frozen conflict on Cyprus, and difficult relations among Turkey, the Republic of Cyprus, and Greece all complicate efforts to develop and sell energy from the Eastern Mediterranean. The Syrian civil war has injected a new source of economic and geopolitical uncertainty, and standing in the background is Russia, which is seeking to enter the

¹ U.S. Geological Survey, "Natural Gas Potential Assessed in Eastern Mediterranean," Apr 8, 2010, <http://www.usgs.gov/newsroom/article.asp?ID=2435>

Eastern Mediterranean energy bonanza, and to maintain its position as the major supplier of oil and gas for European markets.

Amidst this geopolitical uncertainty, the recently discovered gas fields in the Eastern Mediterranean are coming into production. A second exploration well was recently drilled off of Cyprus, while the government in Nicosia signed an agreement with the companies doing the exploration to build a liquefied natural gas (LNG) plant, though questions remain about financing. Israel's Tamar field started production in June. With mounting uncertainty in Egypt (from which Israel previously imported the bulk of its gas), and indeed, across much of the Arab world, the ability to meet its energy needs from domestic sources is a critical contribution to Israel's energy security.

Yet Israel's transformation into a significant energy producer is not without its challenges. Most immediate perhaps is the question of how Israel will sell its gas on international markets. The most economical variant in the short-term would be the construction of an undersea pipeline allowing Israeli gas to reach European markets through Turkey. An Israel-Turkey pipeline would be less expensive to build than new LNG facilities, would reinforce the recently strained political ties between Jerusalem and Ankara, and would contribute to the diversification of Europe's energy supplies by bringing a new source of non-Russian gas to Europe.

Such a pipeline, however, would likely either run off the coasts of Lebanon and Syria, or go to Turkey through Cyprus. Both options are fraught with peril. Though Lebanon and Israel have not demarcated their maritime border, the government in Beirut argues that Israel's gas fields cross into Lebanese waters, and Hezbollah has threatened to attack Israeli drilling operations. Syria, of course, is in a state of near-anarchy. In this perilous environment, finding investors willing to build a pipeline will be challenging, and even if built, the pipeline would be difficult to secure. Going through Cyprus is also difficult, first, because of the poisonous relationship between Cyprus and Turkey, and second because a pipeline through Cyprus would force Israel and Cyprus to compete for market share, potentially making it difficult for Cyprus (and eventually Lebanon) to attract investment to develop their own offshore gas.

Cyprus's own gas fields represent another potential source of conflict. Turkey has not recognized the Republic of Cyprus's exclusive economic zone where exploration is currently under way. Ankara has pressured companies seeking to do business there, and recently began its own exploratory drilling off of the *de facto* Turkish Republic of Northern Cyprus without

permission from Nicosia. The revenues from Cypriot energy could benefit communities on both sides of the island, but only if a political agreement can be worked out in advance.

The major alternative to a pipeline would be to build an LNG facility in Israel or Cyprus to liquefy gas for sale to markets in Asia and the Middle East. Russia in particular backs this idea, and indeed, a company tied to Gazprom signed an agreement to market LNG from Israel's Tamar field in February. Not only are gas prices in Asia around 50% higher than in Europe, but supplying Eastern Mediterranean gas to Asia would ensure that this new production does not become a competitor to Russian gas in Europe. Building an LNG plant in the Eastern Mediterranean would also allow Russia to increase its share of the global LNG market, which currently hovers at just 5%.

This push to build new LNG facilities is just one way in which Moscow and its energy companies are seeking a larger role in the Eastern Mediterranean. Russian companies including Gazprom and Novatek bid on development rights off of Cyprus. Novatek initially won a concession to develop the so-called Block 9, before the Cypriot government withdrew the concession in December 2012. In addition to their marketing agreement at Tamar, Russian companies are also interested in Israel's much larger Leviathan field, as well as Lebanon's offshore, where Gazprom submitted an unsuccessful bid for the right to explore earlier this year. Of course, given Russia's interest in preventing competition for its gas in Europe, there are legitimate questions about whether Gazprom would actually follow through on developing any concessions it wins in the Eastern Mediterranean.

One reason the United States has cared about Eastern Mediterranean gas is because of its potential to bolster the energy security of U.S. allies in Europe. Today, this concern is less pressing than in the past. European gas demand is falling, even as new sources of gas are being developed. The recent announcement of the Trans-Adriatic Pipeline (TAP), connecting to the Trans-Anatolian Pipeline (TANAP) heralds the beginning of the long-awaited Southern Gas Corridor, which will bring new supplies from the Caspian to Europe, and can be scaled up in the future. The United States itself is also on the cusp of becoming a significant gas exporter. Finally, the ongoing implementation of Europe's Third Energy Package is creating a more competitive, liberalized energy market.

While these developments promote European energy security, as the Congressional Research Service has noted, Russia will remain the principal supplier of Europe's gas for many

years. The potential volumes from the Eastern Mediterranean could bolster European energy security around the margins, but are not sufficient not to change this fundamental reality, regardless of who produces or transports them.

For that reason, Washington's main objective in the Eastern Mediterranean should be less about Europe and more about ensuring that energy does not become a source of new conflicts, whether between Israel and its neighbors or over Cyprus. Washington's push for Israeli-Turkish reconciliation, which the promise of energy cooperation facilitated, is a good example of the positive role the U.S. can play. Its diplomacy in Cyprus should proceed in similar fashion. Likewise, sharing the benefits of energy should also be one element in a settlement between Israelis and Palestinians.

Secondly, the U.S. should work to ensure that the potential benefits from Eastern Mediterranean gas are in fact realized. As much as possible, the United States should leave it to the private sector to determine how the Eastern Mediterranean's gas is produced and sold, while working to defuse tensions and ensuring that the benefits of the region's resources are shared fairly. Washington has no reason to oppose the role of Russian companies in the Eastern Mediterranean in principle, though it should work with partner governments in the region to ensure transparency and that promised production does, in fact occur.

Eastern Mediterranean energy can advance a range of U.S. interests in the wider region. Absent sustained diplomatic engagement, however, it can also be the source of new conflicts in an already perilous area. Avoiding that outcome should be the primary focus of U.S. engagement on the future of Eastern Mediterranean energy.